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26 July 1983

MEMORANDUM:

SUBJECT : Soviet oil sales to Eastern Europe

1. The Soviet Union has been subsidizing Eastern Europe's purchases of Soviet oil since the early 1970s.

-- The Soviets set their oil prices for Eastern Europe below world market prices, basing them since 1975 on the average world market price for the preceding 5 years.

-- Eastern Europe does not pay for the oil in cash, but in commodities that do not necessarily reflect world market prices.

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2. Eastern Europe has benefited greatly from Soviet oil pricing policies.

-- Soviet oil prices charged Eastern Europe failed to rise with the first OPEC price explosion in 1973-74.

-- Even though OPEC oil prices nearly tripled between 1978-1981, the price of crude oil to Eastern Europe was only about half the world market price by 1981, representing a Soviet subsidy of some \$9 billion in that year.

-- By 1982, the subsidy had fallen to about \$5.5 billion because of a cut in Soviet oil deliveries and the rise in

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the price of Soviet crude oil relative to falling OPEC oil prices.

-- This year, we estimate the subsidy will be just over \$1 billion as the price for Soviet crude oil has climbed to over 90 percent of the world market price.

If OPEC oil prices hold steady through next year, Soviet crude oil prices probably will surpass the world price and the subsidy will disappear. [redacted]

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3. The Soviets have made some exceptions to subsidizing East European oil purchases:

-- When some East European countries have occasionally bought oil above what had been agreed upon in the formal trade treaties, they have had to paid for it with hard currency or hard goods.

-- ~~Romania has never enjoyed the favorable terms offered the rest of Eastern Europe most likely because of its maverick foreign policy stance and large domestic oil reserves relative to the rest of the region. Bucharest has always paid world market prices in hard currency or hard goods for the small quantities of Soviet oil it has purchased.~~ [redacted]

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